

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07 L-02

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FM AMEMBASSY LONDON

TO USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ENRG

SUBJECT: ENDERS LONDON REMARKS ON INDEXING OIL PRICES

REF: OECD PARIS 4092

1. ENDERS REMARKS ON ENERGY WERE MADE ON BACKGROUND.

TEXT OF PERTINENT PORTION FOLLOWS:

Q. IN A RANGE OF FIGURES YOU MENTIONED, YOU REFUSED TO GO ABOVE \$7.00, BUT YOU MENTIONED A RANGE OF FIGURES ABOVE AND BELOW THIS. IN ALL THIS ARE YOU THINKING IN TERMS OF RELATIVE 1974 PRICES OR DOLLAR PRICES IN WHATEVER YEAR?

A. WELL, I'M CITING FIGURES NOW ABOUT PRESENT COSTS...

Q. NO, YOUR ANSWER A FEW QUESTIONS AGO IN 1974 OR 73?

A. NO. I WAS THINKING IN TERMS OF PRESENT DOLLARS BUT I THINK THE OTHER SIDE OF YOUR QUESTION WAS HOW DO WE FEEL ABOUT INDEXING. IF THAT'S WHAT YOU MEAN, THEN THE ANSWER TO THAT IS THAT WE ARE NOT ATTRACTED PARTICULARLY TO THE IDEA. NO ONE IS ATTRACTED TO THE IDEA BUT IT'S SOMETHING THAT WE WILL OBVIOUSLY HAVE TO LOOK AT IN THE LIMITED OFFICIAL USE

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COURSE OF DISCUSSION BECAUSE THE PRODUCERS WILL INSIST

ON IT SO MUCH AND WE ARE NOT PREPARED TO RULE IT OUT.

Q. YOUR OWN FEDERAL ENERGY ADMINISTRATION FIGURES THAT IN 1980 THERE WILL BE AN INCREASE OF MAYBE 10 MILLION BARRELS OF OIL AT \$9.00 A BARREL AT RELATIVE 1974 PRICES. ARE YOU SERIOUSLY THINKING THAT SOME PRICES AROUND \$7 OR \$8 IN CURRENT PRICES--MAYBE 5 OR 4 IN 1980-- IS THAT THE SORT OF PRICE YOU ARE GOING TO TARGET ON?

A. ARE YOU SUGGESTING NOW THAT WHATEVER PRICE IS USED FOR, IF IT'S A PRICE MECHANISM OR WHATEVER TARIFF IS USED FOR PROTECTION. ARE YOU SUGGESTING THAT IT BE ALLOWED TO ERODE FOR INFLATION?

Q. RELATIVE PRICES OR CURRENT PRICES?

A. I MEANT THEY WERE IN 1974 DOLLARS. THEN OBVIOUSLY THE QUESTION WOULD ARISE AS TO HOW TO PROTECT THEM FROM EROSION AGAINST INFLATION. THE ONE METHOD THAT HAS BEEN PUT FORWARD IS INDEXATION. THAT IS NOT NECESSARILY THE BEST METHOD TO PROTECT THEM. I THINK THERE WOULD BE HESITATION IN GOING FOR SOMETHING QUITE SO MECHANICAL. AS I SAY, WE HAVEN'T RULED IT OUT. BUT OBVIOUSLY THIS PROBLEM IS POSED.

Q. COULD YOU ELABORATE IN GREATER DETAIL ON THIS QUESTION OF THE ARGUMENT THAT'S GOING ON ABOUT THE PRICES AND THE RANGE OF INFLATION. COULD YOU GIVE US SOME MORE DETAILS OF YOUR OWN THINKING ABOUT INDEXATION OR WHAT OTHER IDEAS YOU MAY HAVE.

A. IF YOU'RE GOING TO PROTECT PRICE OR TARIFF OR SET OF PRICES AGAINST INFLATION, YOU CAN EITHER ADOPT A MECHANICAL FORMULA SUCH AS INDEXATION OR YOU CAN MAKE PROVISION FOR A PERIODIC REVIEW IN WHICH YOU WOULD THEN CONSIDER NOT JUST THE COST-OF-LIVING INDEX OR JUST THE GNP DEFLATOR OR JUST AN INDEX OF PRICES IN THE INDUSTRIAL SECTOR BUT YOU WOULD CONSIDER A BALANCE OF THIS SUCH AS THE RATE AT WHICH THE OBJECTIVES OF YOUR POLICY WERE BEING ACHIEVED, ABOUT PRICES AND AVAILABILITIES IN INDIVIDUAL SECTORS. YOU KNOW, THERE ARE LOTS OF WAYS OF DOING IT AND YOU'RE NOT BACKED INTO ANY GIVEN RESULT THAT WOULD COME OUT OF A MACHINE, SO THAT IT'S FAIR TO SAY THAT SOME PROTECTION, IF YOU ADOPT A PRICE MECHANISM, SOME PROTECTION AGAINST CHANGING PRICE LEVELS WILL BE NECESSARY FOR THE CONSUMING COUNTRIES. BUT WHAT IT LIMITED OFFICIAL USE

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WOULD BE, I THINK, IS VERY MUCH OPEN.

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